

**UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA**

Mark Bruckelmyer,

Civil No. 02-1761 (DWF/RLE)

Plaintiff,

v.

**MEMORANDUM
OPINION AND ORDER**

Ground Heaters, Inc., a Michigan corporation,
and T.H.E. Machine Company, a Minnesota
corporation,

Defendants.

David C. Forsberg, Esq., and Kurt J. Niederluecke, Esq., Briggs & Morgan, 2400 IDS Center, 80 Eighth Street South, Minneapolis, Minnesota 55402, counsel for Plaintiff.

Randall T. Skaar, Esq., and Eric H. Chadwick, Esq., Patterson Thuent Skaar & Christensen, 4800 IDS Center, 80 Eighth Street South, Minneapolis, Minnesota 55402-1314, counsel for Defendant T.H.E. Machine Company.

Introduction

The above-entitled matter came on for hearing before the undersigned United States District Judge on September 27, 2002, pursuant to Defendant T.H.E. Machine Company's Motion to Dismiss. In the Complaint, Plaintiff alleges that the Defendants have infringed certain patents owned by the Plaintiff. On this Motion to Dismiss, Defendant T.H.E. Machine Company asserts that Plaintiff's claims are barred by the doctrines of *res judicata* and collateral estoppel. For the reasons set forth below, Defendant's motion is denied.

Background

In the early to mid-1990's, Plaintiff Mark Bruckelmyer ("Bruckelmyer") developed a number of devices for heating and thawing frozen ground. Bruckelmyer obtained patents for these devices.

Throughout this time-period, and until 1999, Bruckelmyer had a series of license agreements with Defendant Ground Heaters, Inc. ("GHI"). Under the terms of the agreements, GHI was the exclusive licensee of Bruckelmyer patents, although Bruckelmyer retained the right to license the patents to other entities if GHI failed to abide by its royalty obligations. The agreements also assigned responsibility for enforcing patent rights in the U.S. to GHI; Bruckelmyer was obligated to protect rights to the patents in Canada, although GHI was required to reimburse Bruckelmyer for any expenses he incurred doing so.

In late 1998, GHI brought suit in the Western District of Michigan against Defendant T.H.E. Machine Corporation ("Machine") for infringement of the Bruckelmyer patents (the "Michigan action"). In February of 1999, Machine answered GHI's Complaint and counterclaimed for declaratory judgment of noninfringement and invalidity of the Bruckelmyer patents. Machine also asserted that GHI lacked standing to bring suit to enforce patent rights still owned by Bruckelmyer.

In correspondence between counsel for Machine and then-counsel for Bruckelmyer, counsel for Machine requested that Bruckelmyer join the suit voluntarily. Counsel for Machine indicated its belief that GHI's rights in the patent were insufficient to confer standing and that Bruckelmyer was an indispensable party to the action. However, neither Machine nor GHI ever brought a motion to join Bruckelmyer as an indispensable or necessary party.

In the Michigan action, Machine asserted that the Bruckelmyer patents were invalid in light of prior art, specifically certain Canadian patents. Shortly after Machine filed a motion for summary judgment based on this argument, Machine and GHI began discussing terms of a possible settlement. GHI urged Bruckelmyer to agree to a lesser royalty from Machine. Although Bruckelmyer appears to have tentatively agreed to such an arrangement, he ultimately refused to accept a lesser royalty. Instead, on May 20, 1999, Bruckelmyer notified GHI that GHI was in default of the license agreement. Bruckelmyer cited past-due royalties and amounts due for maintenance of the patents, and indicated that GHI had 30 days to cure the default or the license would terminate in three months. GHI made no payments and, as a result, the license agreement terminated on August 20, 1999.

In September of 1999, GHI and Machine entered into a settlement agreement. That agreement notes that GHI had been the exclusive licensee of the patents but that, at the time of the agreement, GHI was no longer a licensee at all. The settlement agreement further specifies that the parties agree that the Bruckelmyer patents are invalid. The Michigan court entered an order indicating that the parties had reached a settlement agreement and had stipulated to a dismissal of the action; the order dismissed the action with prejudice and without costs to either party.

Discussion

1. Standard of Review

In deciding a motion to dismiss, the Court must assume all facts in the Complaint to be true and construe all reasonable inferences from those facts in the light most favorable to the complainant. *Morton v. Becker*, 793 F.2d 185, 187 (8th Cir. 1986). The Court grants a motion to dismiss only if it is clear beyond any doubt that no relief could be granted under any set of facts consistent with the

allegations in the Complaint. *Id.* The Court may grant a motion to dismiss on the basis of a dispositive issue of law. *Neitzke v. Williams*, 490 U.S. 319, 326 (1989). The Court need not resolve all questions of law in a manner which favors the complainant; rather, the Court may dismiss a claim founded upon a legal theory which is “close but ultimately unavailing.” *Id.* at 327.

As the Plaintiff points out, *res judicata* and collateral estoppel are issues more appropriately raised as affirmative defenses under Rule 8(c) rather than in the context of a motion to dismiss under Rule 12(b)(6). Indeed, *res judicata* should only be raised in the context of a Rule 12(b)(6) motion when the preclusive effect of the prior action can be determined from the face of the complaint. *See Concordia v. Bendekovic*, 693 F.2d 1073 (11th Cir. 1982). Defendant Machine has clearly gone beyond the four corners of the complaint in arguing its motion, so the motion must be construed as an improperly raised motion for summary judgment. In the interests of judicial economy, the Court will nevertheless entertain the motion before it and consider the record created by both parties.

2. *Res Judicata* and Collateral Estoppel

Machine asserts that Bruckelmyer’s claims against Machine are barred by the doctrines of collateral estoppel and *res judicata*.

In general, the doctrine of *res judicata*, or claim preclusion, prevents repetitive lawsuits based on the same cause of action and thereby promotes judicial economy. Application of *res judicata* to bar a claim requires the satisfaction of three requirements: ‘(1) the prior judgment was rendered by a court of competent jurisdiction; (2) the decision was a final judgment on the merits; and (3) the same cause of action and the same parties or their privies were involved in both cases.’ . . . On the other hand, the doctrine of collateral estoppel, or issue preclusion, prevents the relitigation of an issue of ultimate fact determined by a valid and final judgment in another lawsuit involving a party to the prior litigation.

Coates v. Kelley, 957 F. Supp. 1080, 1083 (E.D. Ark. 1997) (citations omitted).

For the Court to find that the Michigan action has a preclusive effect on Bruckelmyer pursuant to either doctrine, the Court must find that either Bruckelmyer or his privy was a party to the Michigan action. Specifically, “[i]t is a violation of due process for a judgment to be binding on a litigant who was not a party or a privy and therefore has never had an opportunity to be heard.” *Parklane Hosiery Co., Inc., v. Shore*, 439 U.S. 322, 327 n.7 (1979).

Machine asserts that GHI was a privy of Bruckelmyer during the pendency of the Michigan action by virtue of the license agreement.¹ However, the license agreement terminated prior to GHI and Machine entering into their settlement agreement, thereby destroying any privity between GHI and Bruckelmyer. Indeed, at the time GHI and Machine settled the Michigan action, GHI’s interests were in direct opposition to Bruckelmyer’s; in the absence of a license, GHI had an interest in determining that the Bruckelmyer patents were invalid so that GHI could continue to produce its products without worrying about infringing the Bruckelmyer patents or having to pay any sort of royalties. It would turn the concepts of collateral estoppel and *res judicata* on their heads to allow two parties aligned against a third to enter into an agreement stipulating that their position against the third party should prevail and to then use that agreement to prevent the third party from arguing his position.

Machine argues that Bruckelmyer had a “full and fair opportunity” to present his position in the Michigan action, but that he declined to accept Machine’s invitation to voluntarily join the action and so

¹ The Court notes that the license agreement only gave GHI a limited ability to represent Bruckelmyer in patent disputes. The agreement gives GHI the right to prosecute patent infringers, but it does not seem to give GHI the right to invalidate the patent by contract or otherwise.

therefore has waived any claim that he was not a party.² The Court notes, however, that, throughout the litigation and right up until GHI signed the settlement agreement, GHI was representing to Bruckelmyer that it was aggressively seeking to protect his patent rights.

Machine contends that GHI's representation may mean that GHI cannot seek protection under the doctrines of collateral estoppel and *res judicata*, but that Machine negotiated with GHI with the good faith belief that GHI represented Bruckelmyer and so should not be forced to relitigate the same issues with Bruckelmyer. This argument is disingenuous at best. There is absolutely no question that, at the time Machine signed the agreement with GHI, Machine was well aware that GHI no longer represented Bruckelmyer and was no longer in privity with him. The settlement agreement, on its face, states that GHI was no longer a licensee at the time of the settlement. Machine was aware of the conflict between Bruckelmyer and GHI at the time of the settlement and was further aware of Bruckelmyer's interest in the suit, yet Machine took no steps to compel Bruckelmyer's joinder and, instead, settled the suit via a sham agreement as to the patent's invalidity. Thus, Machine cannot now claim that it thought it was settling the matter with Bruckelmyer when it signed the agreement in the Michigan action.

The Court finds that there was no privity between Bruckelmyer and GHI at the time GHI and Machine entered into the settlement of the Michigan action. The Court further finds that, upon the facts

² Machine cites *Mississippi Chem. Corp. v. Swift Agric. Chemicals Corp.*, 717 F.2d 1374, 1379 (Fed. Cir. 1983), in support of its contention that the issue of privity turns of the availability of a full and fair opportunity to be heard. *Mississippi Chem. Corp.*, however, does not address the issue of privity at all. Rather, in that case, the Federal Circuit held that a patentee was estopped from asserting the validity of its patent where the patentee itself had been a party to past litigation in which the patent was declared invalid.

before it, there is no question that Bruckelmyer did not have a full and fair opportunity to litigate these issues in the Michigan action. It would violate the most fundamental concepts of due process to release Machine from suit on the grounds of collateral estoppel or *res judicata*.

The Court notes that Bruckelmyer makes a number of persuasive arguments against application of collateral estoppel and *res judicata* under these circumstances. However, the lack of privity between Bruckelmyer and GHI quickly and neatly disposes of both issues, so the Court need not run through the laundry list of reasons why Machine's motion must fail.

For the reasons stated, **IT IS HEREBY ORDERED:**

1. Defendant T.H.E. Machine Company's Motion to Dismiss (Doc. No. 4) is **DENIED**.

Dated: October 1, 2002

DONOVAN W. FRANK
Judge of United States District Court